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FM REO BASRAH
TO RUEHC/SECSTATE WASHDC 0882
INFO RUEHGB/AMEMBASSY BAGHDAD 0460
RUCNRAQ/IRAQ COLLECTIVE
RHMFISS/DEPT OF ENERGY WASHINGTON DC
RUEHBC/REO BASRAH 0920

UNCLAS SECTION 01 OF 03 BASRAH 000036

SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [ENRG](#) [EPET](#) [PGOV](#) [IZ](#)

SUBJECT: BASRAH: SHELL STILL OPTIMISTIC ABOUT FLARED GAS PROJECT

REF: A. BASRAH 31

[B](#). BAGHDAD 955

[C](#). BASRAH 16

[D](#). BAGHDAD 194

[E](#). 08 BAGHDAD 3397

BASRAH 00000036 001.2 OF 003

[1](#). (SBU) Summary. During a June 8 meeting with PRT EconOff, visiting Shell Gas and Power Vice President Mounir Bouaziz (Amcit, please protect) expressed optimism that Shell's multi-billion dollar South Gas Utilization Project would be approved within the next three months, although "there is still a lot of work to be done." He said that there was "really no one opposed to the project," including Prime Minister Maliki. Bouaziz's visit included meetings with key local leaders, who he said all expressed unconditional support for the project. He inaugurated a "quick win" rehabilitation of a 28-MW generator that will now be available to an electricity-starved public. Bouaziz said that Shell faces "major challenges" dealing with existing environment problems such as waste management, oil leaks, and oil condensates. On doing business in Basrah, he highlighted the "unbelievable" visa requirements, as well as shortages of office and hotel space. On the looming June 28 oil licensing bid deadline, he said that despite major misgivings about the bid terms, virtually all companies will bid, although they may not abide strictly by the "difficult or impossible" rules. End summary.

Gas project still on track

[2](#). (SBU) The South Gas Utilization (SGU) Project is a 51-49 percent, South Gas Company (SGC)-Shell joint venture to gather and market natural gas (produced in the region's oil fields, and currently flared) in the Governorate of Basrah. While the initial Heads of Agreement was signed in September 2008, a final approval by the Council of Ministers (COM) is still needed. Bouaziz, completing another of his frequent visits to Basrah which included meetings and site visits, expressed overall optimism that the project (the), and prospects for eventual approval, would be realized, although "there is still a lot of work to be done." He said that there was "really no one opposed to this project," and even Prime Minister Nouri al-Maliki, during the London April 30 investment conference in London, "reiterated his support." During this Basrah visit, Bouaziz said that he met with a wide range of stakeholders, including Basrah Governor Shaltagh, members of the Provincial Council, Iraq Southern Region Commander General Mohammed, the Basrah Investment Commission, the U.S. 34th Infantry Division Commander, and two vocational schools. All expressed their unqualified support for the project. (Note: In the past, some local leaders have criticized Shell for having largely ignored local stakeholders. End note.) Bouaziz said that he was still hopeful that in "July to September" time period the project

would receive the official approval of the GOI Cabinet (COM). He said there had been only one member of the Parliament (Council of Representatives) that had expressed any opposition to the project.

¶3. (SBU) Regarding the asset valuation study that accounting firm Ernst and Young was to complete by the end of May (ref B), Bouaziz said that they had recently completed a draft report, which Shell was analyzing. Ernst and Young will establish the current market price to replace SGC (and a unit of South Oil Company, or SOC) facilities, and then depreciate the replacement value based on the facility's age. This exercise will also place a value on the GOI contribution to this joint venture.

¶4. (SBU) Bouaziz said that he had just presided over a "quick win," the rehabilitation of a 28 megawatt (MW) SOC generator in the nearby city of Az Zubayr, that had not worked for over 20 years. He noted the importance of this fix-up, as this generator will now be available to a power-starved public, instead of going towards SOC and SGC use. He said that last month, Shell rehabilitated a critical dry gas compressor that will facilitate export of this product. Bouaziz said that Shell is also in the process of importing a new 50 MW, General Electric generator. On GE, Bouaziz said that Shell is trying to have GE enter its GOI-Shell joint venture that will operate this gas project (ref B) in some role, but indicated that GE is still reluctant to do so, on security grounds.

With Mitsubishi in tow

¶5. (SBU) On this latest visit to Basrah, Bouaziz brought along several Mitsubishi executives. Bouaziz said that Shell hopes that Mitsubishi will take some still-unspecified role in the GOI-Shell joint venture, including working with various fertilizer, gas, and power plants in the Basrah region. Bouaziz

BASRAH 00000036 002.2 OF 003

said that Mitsubishi was active in Iraq in the 1970s and 1980s, and Iraqis have expressed a strong desire for them to return, and in order to upgrade equipment and replace badly needed spare parts in these old facilities. Bouaziz also said that the presence of such an internationally well-known firm would bolster Shell's project.

Town Hall meeting well received

¶6. (SBU) Bouaziz said that Shell has regularly conducted town hall meetings in an attempt to inform as wide array of stakeholders and citizens of the project's plans. Given that Iraqis can sometimes believe in "conspiracy theories," he said that these meetings are a "useful exercise." He had just concluded another one, which included NGOs, labor, women, business, farmers, and academic groups. Bouaziz said that he was greatly encouraged and even surprised at how "extremely well informed and responsible" these groups were, how eager they were to learn about the project. There was "virtual unanimity" about its importance, and no objections were voiced. The tone and questions were "sober and responsible," and demonstrated "sophistication." Bouaziz said that a similar meeting would soon be held for local companies and contractors, for them to learn about Shell's tender processes.

"Shocking" state of environment

¶7. (SBU) Bouaziz noted that, while a prime benefit of the project was environmental (gas flares and pollutants, so prominent on the Basrah skyline, would eventually be eliminated), for locals, this is not as important as the hoped-for economic benefits of jobs and investment. On the issue of the environment, he said that Shell has concluded a

fairly extensive environmental survey of the 100 by 150 kilometer region where it would operate 32 sites. He said that overall, "it's a shocking situation," and Shell faces a "tall order" as it contemplates dealing with existing environment challenges such as waste management, oil leaks, and oil condensates. At the same time, he said that it is "not comparable to worse off places, such as Nigeria."

Engaging the MOO

¶8. (SBU) Bouaziz said that Shell had provided laptops and software to several mid-level MOO executives to introduce to them -- for the first time -- concepts such as net present value and internal rate of return, and to assess the financial impact of differing terms and pricing (ref B). He said that MOO Sharistani, who apparently had not known about this initiative and when recently shown a demonstration of this, asked for a laptop for himself, which was provided. Bouaziz joked that this application is now the "most popular program in the MOO." At the same, he said that this was a positive step and an important idea for MOO executives to know about.

Barriers to doing business in Basrah

¶9. (SBU) Bouaziz lamented the continued barriers to doing business in Basrah. Interestingly, he did not highlight the "usual" problems such as lack of hotel and office space (which he noted are major problems), but rather the "absurd" process to obtain a visa on every visit, both before departure to Iraq, and upon arrival at Baghdad or Basrah airports. He recounted the recent "unbelievable, two-hour ordeal" going to different counters, getting stamps and signatures on "different scraps of paper." He said that he had mentioned this problem to PM Maliki in London in April, and although the latter said he would do something, nothing has changed so far.

¶10. (SBU) Bouaziz discounted the idea that international oil companies (IOCs) would encounter significant transport bottlenecks at the Port of Umm Qasr when they begin to ramp up operations when they being the first licensing round. He said that bringing in heavy equipment overland via Kuwait or via the Port of Umm Qasr would not pose significant problems.

¶11. (SBU) Bouaziz and PRT EconOff discussed another long discussed investment irritant, the Basrah International Airport's former administrative building, provisionally dubbed the "Basrah Business Center," or BBC (ref C). (Note: The BBC is conveniently located next door to the airport, and the Coalition has long sought, so far unsuccessfully, to develop and modernize

BASRAH 00000036 003.2 OF 003

the building, seen as an ideal place to locate a business center for the multinational businesses that will presumably work in the Basrah region. Several UK and US-based business offers to develop the center, with Coalition support, have so far gone unheeded by the Ministry of Transportation, the line ministry that owns the building and land. End note.) Bouaziz repeated an earlier assertion that Shell would like to lease two of the BBC's five floors. He said that he had mentioned this long-standing issue to the Minister of Transportation at the April London investment conference. He said that the minister had indicated that he knew of these proposals, but said that he had been waiting for some kind of "master plan" for the airport, which Bouaziz sees as a stalling tactic.

Exxon

¶12. (SBU) Bouaziz said that Exxon, which he expects to bid on one or more oil or gas fields in the first round, has not made any preliminary visit to Iraq. Bouaziz twice expressed his

"shock" and "amazement" that they have not undergone such an important scouting visit. "You cannot possibly understand this place without being on the ground." He said that most western oil majors have a largely incorrect view of social, economic and security conditions here, and that the situation is far better than most believe.

Deadline looming for bids for oil licensing first round

¶13. (SBU) The GOI has set a late June deadline for IOCs to submit bids for the first round of oil and gas licenses (refs A, C, D and E). Bouaziz said that, in the end, and despite some "major misgivings and complaints" about the bid terms, virtually all 32 IOCs that remain eligible will place bids -- "they cannot afford not to be here." However, he said that these bids might very well not strictly conform to what he said were the "crazy" bid rules, and that many firms may very well submit bids in their own way, as the bid rules were "almost impossible" to be complied with, and the MOO in turn may or may not accept these bids. He said that the London-based Gaffney Cline and Associates that has been advising the MOO on the bidding had "made a mess of the process," and made it "way more complicated than it had to be." In any event, Bouaziz said that if the process does go forward in any reasonably successful manner, it will be an important move forward for Iraq, and that significant economic activity in the Basrah region, and other parts of Iraq, will ensue.

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